

Celia Nogales
Federal Regulatory Relations

1775 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383 6473

EX PARTE OR LATE FILED

PACIFIC  TELESIS
Group Washington

DOCKET FILE COPY ORIGINAL

July 27, 1993

EX PARTE

RECEIVED
JUL 27 1993
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

Mr. William Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: RM 8181

Dear Mr. Caton:

On July 26, 1993, Ray Ruiz, Mary Beth Evans and I met with Olga Madruga-Forti to discuss Pacific Bell's position, as stated in its Comments and Reply Comments, in the proceeding indicated above. The attached document was used during the course of that discussion.

Pursuant to Section 1.1206(a)(1) of the Commission's Rules, an original and two copies of this notification are attached. Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



cc: O. Madruga-Forti
S. Hutchings

No. of Copies rec'd 0+1
List A B C D E

EX PARTE OR LATE FILED

PACIFIC BELL
PUBLIC COMMUNICATIONS
INMATE MARKET

1. Offering of inmate phones in today's environment as a regulated service is appropriate.

o Provides benefit to ratepayer

o Is different product offering from that provided by COPTs

2. TODAY as a regulated line of business. Pacific

Cost Allocation Rules

- Govern allocation of company costs between regulated and nonregulated activities (Part 64)
- Govern amounts recorded on telco books for affiliate transactions (Part 32)

History

- Cost allocation rules were one of the nonstructural safeguards adopted in CI-III, allowing BOCs to offer enhanced services on an unseparated basis.
- Detailed cost allocation and affiliate transaction rules were adopted in the Report and Order in CC Docket No. 86-111, Released February 6, 1987.

Goals and Purposes

- Guard against cross-subsidy/protect ratepayers from costs and risks of nonregulated ventures.
- Maximize availability of efficient, low-cost services of all kinds

Cost Allocation Standards

- Fully Allocated Costing
- Maximize Direct/Indirect Attribution
- Costing Principles
 - Tariffed Services at Tariff Rates
 - Direct Assignment
 - Common Costs
 - 1. Direct Attribution
 - 2. Indirect Attribution
 - 3. General Allocation

Affiliated Transactions Hierarchy

Services

If tariffed, use tariff rate

else

If a substantial third-party market exists, use market price

else

Use fully distributed cost.

Assets

If tariffed, use tariff rate

else

If a substantial third-party market exists, use market price

else

Regulated → Nonregulated = Higher of Cost or FMV

Nonregulated → Regulated = Lower of Cost or FMV

Cost Allocation Controls

- CAM filed with FCC
- Accounting process follows CAM
- ARMIS reports filed with FCC
- External audit performed annually

**PACIFIC BELL
PUBLIC COMMUNICATIONS
TOTAL INMATE MARKET
(\$000)**

	<u>Baseline View</u>	<u>Part 64 View</u>	<u>Change under Part 64</u>
REVENUE			
Local Usage	\$XXX	\$XXX	\$(XXX)
MTS Usage NSP	XX,XXX	0	(XX,XXX)
Collect Surcharge	XX,XXX	0	(XX,XXX)
Pay Station Surchrg Rev (\$.22 per NSP Toll msg)		X,XXX	X,XXX
Compensation - \$0.30 per NSP Message	0	XX,XXX	XX,XXX
Uncollectibles	(X,XXX)	0	X,XXX
Total Revenue	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>(XX,XXX)</u>
PUBLIC DEPARTMENTAL EXPENSE			
Commissions	XX,XXX	XX,XXX	0
Other Expense	X,XXX	X,XXX	XXX
TOTAL DEPARTMENT EXPENSE	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>XXX</u>
PART 64 LOADINGS	0	X,XXX	X,XXX
PUBLIC ALLOCATED EXPENSES			
Access Line (Coin line @\$50/mo under Part 64)	X,XXX	X,XXX	X,XXX
Usage	X,XXX	XX	(X,XXX)
Surcharge	XX,XXX	0	(XX,XXX)
Depreciation	X,XXX	0	(X,XXX)
TOTAL PUBLIC ALLOCATED EXPENSES	<u>XX,XXX</u>	<u>X,XXX</u>	<u>(XX,XXX)</u>
TOTAL OPERATING EXPENSES	<u>XX,XXX</u>	<u>XX,XXX</u>	<u>(XX,XXX)</u>
GROSS INCOME	<u>XX,XXX</u>	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
INTEREST EXPENSE	<u>X,XXX</u>	<u>XXX</u>	<u>(XXX)</u>
NET INCOME BEFORE TAXES	<u>XX,XXX</u>	<u>(XX,XXX)</u>	<u>(XX,XXX)</u>
TAXES	<u>X,XXX</u>	<u>(X,XXX)</u>	<u>(XX,XXX)</u>
NET INCOME	<u>\$ XX,XXX</u>	<u>\$(X,XXX)</u>	<u>\$(XX,XXX)</u>

PROPRIETARY INFORMATION: Not for use or disclosure outside of Pacific Bell without written authorization.